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Message Text

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65
ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01

PRS-01 /111 W
---------- 001990
R 231330Z NOV 75
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC 4147
USDOC WASHDC
INFO AMEMBASSY ABU DHABI
AMEMBASSY BEIRUT
AMCONSUL DHAHRAN
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
USINT BAGHDAD

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E.O. 11652: N/A
TAGS: ENRG, EIND KU
SUBJ: KUWAIT GAS UTILIZATION PROJECT: MAJOR CONTRACTORS SELECTED

REF: A. KUWAIT 4196 (NOTAL) AND PREVIOUS

1. WE HAVE LEARNED FROM TWO SEPERATE AND APPARENTLY WELL-
INFORMED SOURCES THAT GOK HAS SELECTED THREE MAJOR CONTRACTORS
WHO WILL PERFORM MAJOR ELEMENTS OF KUWAIT GAS UTILIZATION
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PROJECT (KGUP). MOST IMPORTANT SINGLE CONTRACT HAS GONE TO

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US FIRM, KELLOG, ALTHOUGH COMPANY'S LONDON OFFICE HAS BEEN HANDLING MATTER AND ACTUAL CONTRACT WILL BE WITH BRITISH SUBSIDIARY. KELLOG WILL BUILD THE MAIN PROCESSING PORTION OF THE PROJECT. IHI OF JAPAN HAS BEEN SELECTED TO BUILD GATHERING FACILITIES. PIPE WILL BE SUPPLIED BY KUWAIT METAL PIPES INDUSTRIES, AND PIPELINE CONSTRUCTION WILL BE RESPONSIBILITY OF EXPERIENCED LOCAL CONSTRUCTION FIRM, CONCO. EXACT VALUE OF THESE CONTRACTS UNKNOWN AT THIS TIME, BUT THEY TOTAL SEVERAL HUNDRED MILLION DOLLARS.

2. LOCAL HONEYWELL REP EXPRESSED CONCERN ABOUT CONTRACT AWARD TO IHI. HE OBSERVED THAT THERE HAD BEEN UNCONFIRMED RUMORS OF JAPANESE GOVERMENT SUBSIDY OF IHI IN BIDDING ON THE GATHERING FACILITIES CONTRACT. REP WAS UNABLE TO PROVIDE DEFINITE INDICATIONS OF THESE RUMORS, BUT HE FELT THAT IT WAS A POSSIBILITY IN LIGHT OF PREVIOUS EXPERIENCE. HE SAID THAT THERE HAD BEEN SEVERAL INSTANCES OF THE JAPANESE SUBMITTING BIDS ON EQUIPMENT CONTRACTS, ONLY TO CUT THEM SUBSTANTIALLY AFTER CONSULTATION WITH THEIR GOVERMENT. HE ALSO NOTED THAT THE JAPANESE HAVE BEEN ABLE TO SEND VERY LARGE, 5-6 MAN SALES TEAMS, APPARENTLY BY MAKING USE OF GOVERMENT FUNDS. REP FEARS ALSO THAT IHI WILL PURCHASE PROCESS CONTROL AND OTHER EQUIPMENT (WHICH HONEYWELL WOULD LIKE TO SELL) FROM JAPANESE SOURCES EXCLUSIVELY. HE NOTED THAT, THOUGH THE MINISTRY OF OIL OR BECHTEL CAN MAKE RECOMMENDATIONS IN REGARD TO SUCH PURCHASES, THE FINAL DECISION IS IN THE HANDS OF THE CONSTRUCTION CONTRACTOR.

3. COMMENT: AS OUR PREVIOUS REPORTING INDICATED, THERE HAS CONSIDERABLE SPECULATION OVER WHO WOULD WIN CONTRACTS. IHI AND KMPI BEAT OUT US FIRMS. KELLOG WAS KNOWN TO HAVE SUBMITTED LOWEST BID, BUT OTHER COMPANY REPRESENTATIVES, APPARENTLY OVER-OPTIMISTICALLY, DESCRIBED BID AS "UNREALISTIC". ACTUALLY KELLOG'S CLOSEST COMPETITOR, ACCORDING TO SOURCE WHO PARTICIPATED IN REVIEW OF BIDS, WAS FLUOR. BUT THAT COMPANY FAILED TO MEET TENDER TERMS (I.E. SUBMIT A LUMP SUM BID) AND THEREFORE WASNOT ALLOWED TO DICKER WITH GOK ON SPECIFIC TERMS. COMPANY APPEARED TO KUWAITIS TO BE ARROGANT SINCE IT HAD JUST WON MAJOR SAUDI CONTRACT AND THEREFORE WAS NOT OVERLY INTERESTED IN KUWAIT JOB. WE UNDERSTAND FLUOR IS
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NOT SO SURE NOW THIS WAS THE BEST WAY TO PROCEED.

4. ONCE CONTRACTS ARE SIGNED, THERE WILL BE CONSIDERABLE SCOPE FOR SUPPLIER AND SUB-CONTRACTS, AS EVIDENCED BY HONEYWELL INTEREST IN SELLING PROCESS CONTROL EQUIPMENT. IN THIS REGARD, THERE IS A POSSIBILITY THAT KMPI WILL HAVE TO MAKE SUBSTANTIAL PIPE PURCHASES ON THE INTERNATIONAL MARKET IN ORDER TO MEET THE PROJECT'S REQUIREMENTS. IN ADDITION, GOK WILL SOON HAVE

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TO ASSIGN RESPONSIBILITY FOR MANAGING PROJECT TO LOCAL BODY.
WE HAVE HEARD OF THREE POSSIBLE ALTERNATIVES: THE MINISTRY OF OIL
ITSELF, KUWAIT OIL COMPANY OR KNPC. IF KOC IS SELECTED, IT IS
LIKELY THAT SPECIALISTS FROM GULF OIL COMPANY WILL BE BROUGHT
IN UNDER GOK-GULF TECHNICAL ASSISTANCE UNDERSTANDING. FYI ONE
GULF EXPERT ALREADY IS ASSIGNED TO MINISTRY OF OIL TO HELP WITH
KGUP. END FYI. HOWEVER, WHETHER KOC/GULF ALTERNATIVE IS FOLLOWED
MAY DEPEND ON GOK'S MOOD DURING CURRENT KOC TAKEOVER TALKS (SEPTEL).

5. WITH BECHTEL AS SUPERVISORY AND DESIGN ENGINEERS AND
KELLOG AS PRIME CONTRACTOR FOR PROCESS FACILITIES AS WELL
AS SUBSTANTIAL EQUIPMENT CONTRACTS TO US FIRMS ARE RESULTING
IN MAJOR AMERICAN ROLE IN WHAT PRESENTLY IS LARGEST NEW
INDUSTRAIL AND PETROLEUM-RELATED PROJECT IN KUWAIT. AMERICAN
ROLE COULD EXPAND IF GULF OR OTHER AMERICAN EXPERTS ARE
BROUGHT IN TO MANAGE PROJECT. FINALLY, AS INDICATED IN OUR
REPORTING, KGUP WILL EVENTUALLY BE PRODUCING LARGE QUANTITIES
OF LPG WHICH LIKELY TO BE SOLD IN US MARKET.
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